Stock Gambling. How to prevent gambling in stocks and produce, without injuring legitimate and necessary transactions and to prevent the manipulation of the stock and produce markets by speculators, is one of the greatest moral and economic problems of the day. The stock exchange of New York and with it the whole of Wall street where it happens to be located have come to be looked upon by the public as a place for gambling on a large scale—an American Monte Carlo,—where men bet upon the price of stocks instead of the roulette table. The conditions existing have brought discredit to legitimate business and for the sake of business as well as of morals, a reform is necessary.

Recognizing the public distrust of the exchanges in New York, Governor Hughes, on December 14, 1908, appointed a special committee consisting of Horace White, Maurice L. Muhleman, Charles A. Schieren, David Leventritt, Clark Williams, John B. Clark, Willard V. King, Samuel H. Ordway, Edward D. Page, and Charles Sprague Smith, to ascertain what changes are advisable in the laws of the state to better regulate speculation in securities and commodities. The work of this committee was voluntary. They possessed no power but they were able through the willing coöperation of business men, members and officers of the exchanges and others to secure the necessary data for a complete report. The report was delivered to the governor, June 7, 1909. It is a document of twenty pages containing a summary of the facts learned about the various exchanges and the recommendations of the committee. On the whole, the report is conservative. It does not seek to minimize the evils of gambling in connection with the exchanges but frankly recognizes the difficulties of eliminating gambling without seriously injuring legitimate business. The report says: "The most fruitful policy will be found in measures which will lessen speculation by persons not qualified to engage in it. In carrying out such a policy exchanges can accomplish more than legislatures." The recommendations for legislation are therefore few. The committee strongly recommends better regulation by the exchanges themselves because they have absolute power over their members. The committee does not favor the prohibition of margin trading or short selling, recognizing these transactions as legitimate in a large number of cases and impossible of separation from the cases of pure gambling. Pyramiding is condemned and the suggestion made that in valuing securities for margins or collateral, the average price for two or three months be taken unless it is higher than the price at the moment. Manipulation of prices is considered but the committee confesses that in case of manipulation there is no remedy short

of the abolition of the stock exchange itself, though the worst forms of the evils could be prevented by the exercise of the authority and influence of the exchange. "Wash sales" and "matched orders" are also condemned but the regulation is held to be beyond the power of legislation. The authorities of the exchange could it is believed effectually discourage "matched orders." "Wash sales" are unenforceable at law and are condemned by the exchange. The members of the exchange attempting it run the risk of expulsion and consequent financial ruin. The evils arising from "corners" are also considered as subjects of regulation by the exchange. The proposal is made that the governors of the exchange shall have power to decide when a corner exists and to fix a settlement price.

Examination of the books of the members of the exchange is recommended for the exchange but examination by state authority is not favored because of the confidential relations between brokers and their clients. In the listing of securities for admission to the exchange it is recommended that the exchange require frequent statements of the condition and transactions of the issuing companies and in the case of new stocks, a complete statement covering the details of the financial condition of the companies and the terms of the stock issue. The committee advises against abolishing the stock clearing house but recommends that the clearing sheets be preserved for at least six years and be at the disposal of the courts. Branch offices of the exchange are condemned and if not abolished by the exchange it is advised that they be effectively regulated.

The evils of the curb market are outlined but it is not believed advisable to abolish it or to require too elaborate an organization for the reason that another curb would arise free from such restraint. Since the business of the curb comes largely from members of the regular exchange, it is believed that the exchange could effectively regulate the curb by rules affecting its members. The rules of the exchange already prohibit dealing by its members on any other organized exchange. This accounts for the unorganized curb. The powers of the exchange are believed to be sufficient for the purpose of control. The committee was strongly urged to favor the incorporation of the exchange. They advise, however, against it at this time, believing that more good can be accomplished by rules of the exchange. The committee adds: "If, however, wrongdoing recurs and it should appear to the public at large that the exchange has been derelict in exerting its powers and authority to prevent it, we believe that the public will insist upon the incorpora-

tion of the exchange and its subjection to state authority and supervision."

The committee reviews the work of the incorporated exchanges i.e., the consolidated stock exchange, and the commodity exchanges. Dealing in futures on these exchanges is upheld as necessary to the insurance of business, although the evils are recognized and condemned. The report also reviews the English and German experience in regulating stock and produce exchanges, and touches upon the cognate subjects of holding companies, receiverships, effect of the money market on speculation, and the usury law. While not recommending the repeal of the usury law it is intimated that the committee favors such action on the ground that "money will inevitably seek the point of highest return for its use" the repeal of the exception made to the usury law in 1882 whereby loans of $5000 or more payable on demand and secured by collateral are exempted is not favored because its operation is not confined to speculative loans.

The legislation reommended will not satisfy the advocate of radical measures. The attitude of the committee is that reform can come through the exchanges and that time should be given them to amend the evil practices now existing. They believe that too detailed government regulation will harm legitimate business. Specifically they recommend laws to prevent brokers from rehypothecating or loaning securities held for customers; to prevent fictitious trades; to regulate advertising securities; to better regulate bucket shops by providing that if one party instead of both to a transaction did not intend the delivery of the property, it should be considered gambling, also to require in all cases names of persons to whom stocks are sold and from whom bought, and to require testimony of witnesses. The report broadly hints that if the exchanges do not use their powers of regulation to eliminate the evils, the public demand will be for more detailed and radical regulation.

John A. Lapp.

Stocks and Bonds. The old problem of regulating the issue of stock and bonds at last seems near solution. The problem is an old one; inadequate, misguided attempts were made early without a realization of the difficulty or the evil effects of non-regulated issues, real attempts at solution came more recently and what seems a real solution belongs to a very recent date. Massachusetts seems to have been the leader in the movement toward a real solution beginning first with railroads and fol-